

C

INTERCO

HOWARD ROSS LIBRARY
OF MANAGEMENT

JUN 9 1982

MCGILL UNIVERSITY

INTERCO 71st Annual Report

INTERCO Today

INTERCO is a broadly based major manufacturer and retailer of consumer products and services represented by four operating groups.

Apparel Manufacturing Group consists of 11 apparel companies operating 60 manufacturing plants and 12 major distribution centers across the country. The group designs, manufactures and distributes a full range of branded and private-label sportswear, casual apparel, outer garments and headwear for men and women. Distribution is national in scope to department stores, specialty shops and other retail units. Substantial distribution, under private and branded labels, is also made to large national retail and discount chains.

General Retail Merchandising Group operates 869 retail locations in 28 states in this country, offering to the consumer a large assortment of products and services. General retailing includes junior department stores, discount stores, men's and women's specialty apparel shops, specialty department stores and large do-it-yourself home-improvement centers. Ten modern regional distribution centers support these retail locations.

Footwear Manufacturing and Retailing Group operates 891 retail shoe stores and leased shoe departments in 43 states in this country, as well as in Australia, Canada and Mexico. The group also styles, manufactures and distributes, primarily, men's footwear in most major price ranges in the United States, Canada and Australia. There are 19 shoe manufacturing plants and three major distribution centers in operation.

Furniture and Home Furnishings Group manufactures and distributes quality furniture and home furnishings. There are 45 factories and 12 major distribution centers and consolidation warehouses located throughout the United States. The company also owns and operates 29 Showcase Galleries and accessory stores.

Contents

	Page
Highlights	2
Letter to the Stockholders	3
Apparel Manufacturing Group	4
General Retail Merchandising Group	8
Footwear Manufacturing and Retailing Group	12
Furniture and Home Furnishings Group	16
Fiscal 1982 in Review	20
Consolidated Financial Section	25
Independent Accountants' Report	43
Management's Discussion and Analysis of Results of Operations and Financial Condition	44
Five-Year Consolidated Financial Review	46
Memorial Tribute to William L. Edwards, Jr.	47
Directors, Officers and Members of the Operating Board	48

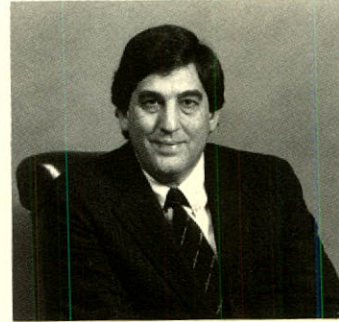
Highlights

Years Ended	February 28 1982	February 28 1981	Change
From operations:			
Net sales.....	\$2,673,769,000	\$2,368,456,000	12.9 %
Earnings before income taxes.....	223,270,000	232,021,000	(3.8)%
Net earnings.....	118,615,000	121,203,000	(2.1)%
As a percent of sales	4.4%	5.1%	
Per share of common stock:			
Earnings	\$7.23	\$7.42	(2.6)%
Dividends	\$2.88	\$2.64	9.1 %
Financial condition at year end:			
Working capital	\$ 785,328,000	\$ 711,551,000	10.4 %
Current ratio	4.0 to 1	3.6 to 1	
Total assets	1,538,950,000	1,472,106,000	4.5 %
Stockholders' equity	985,072,000	910,873,000	8.1 %
Book value per common share	\$62.36	\$57.76	8.0 %
Return on stockholders' average investment.....	12.5%	14.0%	
Shares outstanding at year end:			
Common	14,200,276	14,013,583	
Preferred	995,722	1,014,399	
Number of stockholders.....	14,500	15,500	
Number of employees.....	54,000	56,000	

To Our Stockholders



John K. Riedy



Harvey Saligman

For the eighteenth consecutive year, INTERCO achieved record sales, while earnings were slightly lower than the record level one year ago. On a comparative basis, sales were \$2.67 billion, an increase of 12.9%; net earnings were \$118.6 million, lower by 2.1%; and earnings per common share were \$7.23, a decrease of 2.6%. The difficulties facing our economy at the end of fiscal 1981 continued as the recession deepened and high interest rates and severe unemployment persisted.

William L. Edwards, Jr. died on June 21, 1981 at age 62. At the time of his death, he was Chairman of the Board and Chief Executive Officer of the company. Your attention is directed to page 47 of this annual report where we pay tribute to Bill Edwards for his meaningful and lasting contribution to INTERCO during his 12 year tenure, the last five as Chief Executive Officer.

Consistent with INTERCO's philosophy of planned future management, John K. Riedy, Vice Chairman of the Board of Directors, was elected Chairman and Chief Executive Officer of the company. During the year other management changes included the elections of Mark H. Lieberman, President of *Londontown Corporation*, and Robert B. Peterson, Chairman of the Board of *Sky City Stores, Inc.*, to the INTERCO Operating Board.

Subject to corporate policies established by INTERCO, each operating company has primary responsibility for sales and profit performance and all areas of its operations, including product line development, marketing and manufacturing, while being relieved of corporate administrative matters by the INTERCO staff in legal and financial areas. Essential to our company's decentralized management philosophy is the monthly meeting of the INTERCO Operating Board, composed of the principal officer of each major operating company and the Chairman, President and Executive Vice President of INTERCO.

These Operating Board meetings provide a valuable forum for an exchange of ideas and a coordination of efforts, covering items of mutual interest and concern, such as: market trends; expense reduction and cost control programs; and innovations in sales and manufacturing techniques.

Another important management tool is the quarterly meeting held at each company's headquarters where senior INTERCO management meets with that company's operating group to review in detail current business plans and forecasts.

We have found that growth through acquisition is an excellent means of entering new segments of our industries and expanding our markets. Acquisitions continue to be an integral part of our long-range planning. Our acquisition guidelines include:

- (1) Companies whose markets, products and services are compatible with the overall business of our company.
- (2) Companies which are well-managed, profit oriented and which will continue to grow profitably.
- (3) Companies whose return on investment will be in line with or improve INTERCO's return to its shareholders.
- (4) Companies whose people and philosophies are compatible with those of INTERCO.

Equally as important as growth through acquisitions are the continued growth and strengthening of our existing companies. Our investment for this growth continued during fiscal 1982 with \$48.4 million in additions to company-owned property and \$3.9 million to leased property. For fiscal 1983, we have budgeted \$54 million for new property and equipment, including improvements to existing manufacturing, distribution and retail facilities. Such expenditures have been and will be financed through cash flow from operations and, in some cases, through long-term financing utilizing industrial revenue and similar bond issues.

Your company has achieved the strongest financial position in its history. On February 28, 1982, our assets totalled over \$1.5 billion and our debt to equity ratio, including capitalized leases, was 22.7%. Each operating company and every segment of its operations are continually being reviewed from a performance standpoint emphasizing return on assets employed. Every action will be taken to improve the return on invested capital in fiscal 1983, including redeployment of assets where appropriate.

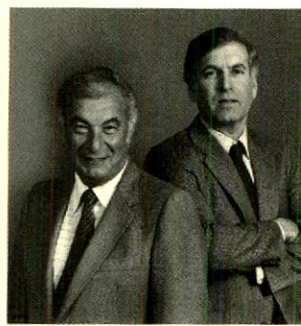
Although the effects of our nation's current recession may persist for some time, the leading position of our operating companies in each of their markets and their proven management abilities will enable INTERCO to capitalize on any improvement in the general economy.

We thank our loyal employees for their continued dedication and efforts and we extend a special thank you to our many shareholders for their support and confidence.

John K. Riedy
Chairman of the Board
and Chief Executive Officer

Harvey Saligman
President
and Chief Operating Officer

April 15, 1982



Apparel Manufacturing Group



From left:
Charles J. Rothschild, Jr.,
President, Campus
Sportswear Company;
Webster L. Cowden, Jr.,
President, Cowden
Manufacturing
Company;
Lionel Baxter,
President,
Big Yank Corporation.

From left:
Edwin J. Baum,
President, The Biltwell
Company, Inc.;
Mark H. Lieberman,
President, Londontown
Corporation;
Jean S. Goodson,
President, International
Hat Company.

From left:
Irving S. Wahl,
Chairman of the
Board, Stuffed Shirt/
Stuffed Jeans, Inc.;
Arthur Sibley,
President,
College-Town;
Theodore A. Fell,
President, Sidney
Gould Co., Ltd.

From left:
Stanley Matzkin,
President,
Devon Apparel;
Herschel Cravitz,
President, Queen
Casuals, Inc.

INTERCO's Apparel Manufacturing Group achieved record sales during fiscal 1982. Sales increased 5.7% and operating earnings decreased 4.2%. The group contributed \$899.2 million or 33.6% of the consolidated sales, and \$104.8 million or 40.1% of the operating earnings of the company, for a return on sales of 11.7% before income taxes, corporate expenses and interest cost.

These results occurred during a year in which recessionary conditions coupled with high rates of inflation, growing unemployment, and soaring interest rates prevailed. Fiscal 1982 saw a record number of bankruptcies at manufacturing and retailing levels. These factors led to a greater degree of caution and pessimism throughout the industry. As the year progressed, retailers became increasingly hesitant to place new orders and aggressively pursued promotions to maintain sales and inventory at satisfactory levels.

As a major domestic apparel manufacturer, consisting of eleven operating companies, our Apparel Group offers a broad selection of dress and casual products to the consumer. Our apparel for women is designed for the

petite, junior, missy and larger size markets. Products for women include suits, pants, skirts, jackets, sweaters, blouses, shirts, vests, blazers, jeans, shorts, headwear, rainwear and outerwear. Products for men include sport and dress shirts, slacks, jeans, shorts, swimwear, sweaters, sport coats, suits, headwear, rainwear and outerwear.

Our leading position in the apparel industry reflects the INTERCO philosophy of developing and expanding nationally recognized brand names. Our products are presented to the consumer through major advertising programs emphasizing their styling, quality and value. During fiscal 1982, *Campus* expanded their highly successful *LeTigre* line for men by introducing it into the women's sportswear market. A new line by *College-Town* entitled *Seprats* was designed for the missy moderate traditional market and will make its debut in fiscal 1983. *Outdoors Unlimited* by *London Fog*, a growing line of active, youthful outerwear, has gained market position by combining the styling sought by a more casual generation with the strength of the *London Fog* brand and the quality it represents. A major national advertising program on television supports this effort. Our brand names have received not only national recognition but also international acceptance through our worldwide network of licensees.

**Major Apparel
Brands for Women:**

Clipper Mist
College-Town
Devon
Fog
It's Pure Gould
Lady Devon
Lady Queen
Le Tigre
London Fog
Maincoats
Outdoors Unlimited
Pant-her
The Petite Concept
QC 3
Queen Casuals
REJOICE!
Seprets
Separate Pieces
Stuffed Jeans
Stuffed Shirt
Travelaire

**Major Apparel
Brands for Men:**

Big Yank
Biltwell
Campus
Clipper Mist
Cowden
Donegal
Fog
John Alexander
Le Tigre
Le Tigre, Jr.
London Fog
Maincoats
One University Place
Outdoors Unlimited
Pro-action
Rugged Country
Startown
Studio One by Campus
Tailor's Bench
Tour de France
Travelaire

Utilizing our domestic manufacturing facilities, we are able to closely monitor the quality so vital to our products, and to adjust our levels of production to meet consumer demand faster than foreign manufacturers. This allows us to accelerate or curtail production, thereby avoiding many quality and inventory problems.

During the year, we opened two factories, expanded two existing distribution centers, and closed six less efficient plants.

In the months ahead, the consumer will be seeking quality and distinctive styling at affordable prices, and our companies are in a position to meet this need. Despite general economic conditions, our plans are to achieve sound growth and to consistently increase our share of the apparel market.







General Retail Merchandising Group



From left:
Stanley M. Cohen,
Chairman of the
Board, Central
Hardware Company;
Edward S. Golde,
President, Golde's
Department Stores, Inc.

From left:
William B. Klinsky,
President, Alberts, Inc.;
Gerald B. Hirsch,
President, P. N.
Hirsch & Company;
John Weil,
President,
Eagle Family Discount
Stores, Inc.

From left:
Bert A. Hyman,
President, United Shirt
Distributors, Inc.;
Myron C. Peterson,
Chairman of the
Executive Committee,
Sky City Stores, Inc.;
Barry S. Fine,
President,
Fine's Men's Shops,
Incorporated and
Standard Sportswear.

The General Retail Merchandising Group of INTERCO achieved record sales for fiscal 1982; however, operating earnings were below the prior year.

Sales were \$672.2 million or 25.1% of the consolidated sales, and operating earnings were \$22.8 million or 8.7% of the operating earnings of INTERCO, for a return on sales of 3.4% before income taxes, corporate expenses and interest cost. Sales increased 4.1% while operating earnings decreased 15.9% from the previous year.

During the year, 29 stores were added, increasing the total to 869 at year end. Twenty-eight stores were closed consistent with the company's objective of eliminating marginal units.

The General Retail Merchandising Group includes the following retail companies:

- *Central Hardware* operates 29 large home improvement centers in six mid-western states. During fiscal 1982, *Central* placed added emphasis on installing home modernization and energy saving products and extending credit programs.
- *Sky City Discount Stores* and *Eagle Family Discount Stores* consist of a total of 291 convenience discount stores in Florida, Alabama, North Carolina, South Carolina, Georgia, Kentucky and Tennessee. *Sky City* and *Eagle* have expanded their aggressive advertising and sales promotion programs, offering customers better buys in branded and private-label merchandise at discount prices.

- *Fine's*, *Standard* and *United* operate 82 men's specialty apparel shops located primarily in Virginia, North Carolina, South Carolina, West Virginia, Pennsylvania, Ohio and Michigan, catering to the needs and style preferences of today's price-conscious young men.
- *Alberts* operates 77 specialty stores for women located in the midwest, offering nationally advertised merchandise for the contemporary woman, under the names of *Alberts*, *Albert K* and *Fashion Cents*, and, under the name *Alcove*, featuring fashions for today's younger woman.
- *P. N. Hirsch & Company*, a chain of 380 junior department stores, satisfies the basic clothing and household needs of families situated in small and medium-sized communities. In addition to midwestern stores operated under the name of *P. N. Hirsch*, the company has retail locations in the southcentral, southwest and western states operating as *Wigwam Stores*, *Shainberg's*, *Kent's*, *Thornton's*, *Idaho Department Stores*, *Miller's*, *Keith O'Brien* and *Carithers*.

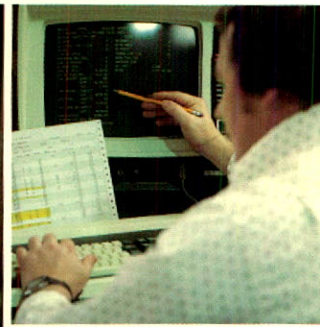
Major Retail Trading Names:

Alberts	Jeans Galore
Albert K	Keith O'Brien
Alcove	Kent's
Carithers	Miller's
Central Hardware	P. N. Hirsch
Eagle Family Discount Stores	Shainberg's
Fashion Cents	Sky City Discount Center
Fine's	Standard Sportswear
Golde's	Thornton's
Hirsch Value Center	United Shirt
Idaho Department Store	Wigwam

▪ *Golde's*, headquartered in St. Louis, operates ten specialty department stores located in Missouri and Illinois. In today's competitive environment, the company endeavors to stress service and a genuine interest in its customers.

In a continuing effort to increase our return on assets employed, the General Retail Group has a program to closely monitor the performance and profitability of every aspect of its operations. Each line of merchandise is evaluated to be certain that it not only meets the current demands of our customers from the price, quality and style standpoints, but also generates the maximum amount of sales per square foot. Today, the consumer demands better quality, branded products at attractive prices and our stores are merchandised to fulfill these needs. Each store's profitability is tracked and marginal units are relocated or eliminated. In an atmosphere of rising costs, every item of expense must be justified and methods found to reduce them. Computers and highly automated systems are utilized to the fullest to control ordering of merchandise and maintain inventories at proper levels.

With the broad and varied base of our retail outlets, our company is positioned to take advantage of any general improvement in our nation's economy which will result in increased consumer purchasing power.









From left:
Jack Spewak,
President,
Senack Shoes, Inc.;
Harry M. Krogh,
President, The
Florsheim Shoe
Company;
J. Carl Powers,
President,
International Shoe
Company.

The company's Footwear Manufacturing and Retailing Group contributed \$587.0 million or 22.0% of the consolidated sales, and \$78.4 million or 30.0% of the operating earnings of the company, for a return on sales of 13.4% before income taxes, corporate expenses and interest cost. Sales increased 5.1% and earnings decreased 6.2% from the record performance of one year ago.

Footwear Manufacturing

The manufacturing segment of the Footwear Group, while affected to some degree by the downturn in the economy, had a comparatively good year.

Florsheim maintains a position of leadership in the manufacture of quality footwear for men. The traditional *Florsheim* shoe continues to gain dealer and consumer acceptance. The *Florsheim* line has been expanded to meet consumer demand for softer, lighter, more comfortable footwear. These new casual lines are marketed under the *Idlers* by *Florsheim* and *Weeds* from *Florsheim* labels.

The *Ambassador* division is gaining acceptance in better-grade department and men's specialty apparel stores with their *Christian Dior* shoes for men. Its *Sea-Tracs* by *London Fog* for boating enthusiasts, launched in Fall 1981, has been well received both in marina and general footwear stores.

The *Hy-Test* safety shoe division of *International Shoe*, maintained its leading market position despite the curtailment of employment in a num-

ber of major industries. *Hy-Test* is introducing a new group of quality dress safety footwear called *Top Brass* directed toward management personnel in the industrial market. Also, a new contoured sole for casual shoes, called the "Double Duty Sole," is being introduced for work and leisure wear.

During fiscal 1982, *Marshmallows*, a line of women's sandals with a cushioned insole, was introduced by the Women's Division of *International Shoe*. Further, *International Shoe* is optimistic that its new line of top quality fashion shoes branded *Lady* will capture a large share of the fashion and value conscious working women's market.

During the year, our domestic footwear distribution facilities were consolidated. This facility, located in Jefferson City, Missouri, incorporates updated warehousing techniques and improved handling systems.

Equipped with the best manufacturing processes and utilizing quality materials and workmanship, our footwear manufacturing operations are in the forefront of their industry in satisfying consumer demands.

Major Footwear Brands:**For Men:**

Ambassador
Florsheim
Florsheim Imperial
Royal Imperial by
Florsheim
City Club
Idlers by Florsheim
Lifestyle
Weeds from Florsheim
Grizzlies
Hy-Test
Julius Marlow
Outdoorsman
Rand
Roberts
Sea-Tracs by
London Fog
Winthrop
Worthmore

For Women:

Crawdads
diVina
Florsheim
Lady
Marshmallows
Miss Wonderful
Personality
Sea-Tracs by
London Fog
Thayer McNeil
Vitality

**Major Retail Trading
Names:**

Florsheim Shoe Shops
Florsheim Thayer McNeil
Duane's
Miller Taylor
Phelp's
Thompson, Boland & Lee

Footwear Retailing

Retailing operations are conducted throughout the United States and in Canada, Mexico and Australia. *Florsheim* stores in these foreign countries continue to prosper, with those in Canada and Mexico showing significantly greater sales and earnings.

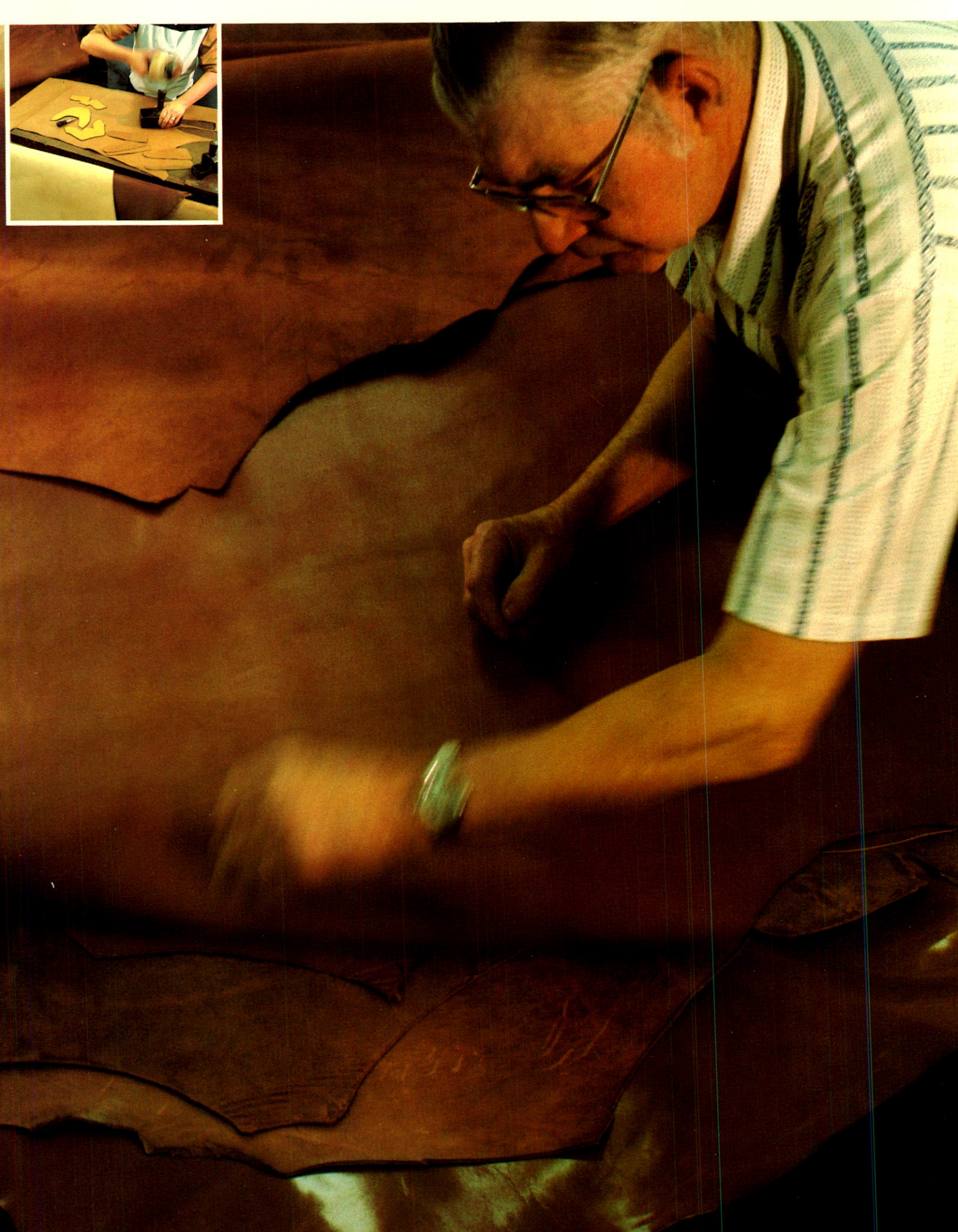
Through our *Florsheim Shoe Shops* for men, *Florsheim Thayer McNeil Shops* for women and men, and leased shoe departments in leading department stores, we offer quality footwear to the consumer. Our retail stores are generally situated in prime locations within high-volume regional shopping centers and downtown areas.

Senack Shoes, Inc., which operates shoe stores and leased shoe departments in leading department stores, had an excellent year in sales and earnings. *Senack's* affiliation with growing department store chains insures its continued expansion.

General

Fiscal 1982 was a record year for sales while earnings were slightly below the record of last year. The new year will present a challenge to our Footwear Group, requiring strict cost controls, close monitoring of inventory levels, and aggressive pursuit of sales volume.







Furniture and Home Furnishings Group



From left:
Nathan S. Ancell,
Chairman of the
Board, Ethan Allen Inc.;
Paul H. Broyhill,
Chairman of the Board,
Broyhill Furniture
Industries, Inc.

The Furniture and Home Furnishings Group includes the operating results of *Ethan Allen* and *Broyhill* for the full year ended February 28, 1982. *Broyhill*, acquired on December 1, 1980, was included for only a three month period a year ago, therefore comparisons with the previous year are not meaningful.

For the year ended February 28, 1982, the Furniture Group had sales of \$515.4 million or 19.3% of the consolidated sales, and operating earnings were \$55.3 million or 21.2% of the operating earnings of the company, for a return on sales of 10.7% before income taxes, corporate expenses and interest cost.

Results of the Furniture Group during the first half of the fiscal year were favorable. However, as the effects of the high cost of installment credit and depressed housing sales continued, the operating results during the second half were adversely affected.

The two fine companies which comprise our Furniture Group produce complete lines of household furniture, but differ significantly in their marketing approaches. *Ethan Allen* manufactures furniture to retail in the middle to upper price ranges. Principally of American Traditional design, the furniture is sold through 324 Showcase Galleries and accessory stores throughout the United States and Canada. *Broyhill's* broad line of furniture, in the medium price range, is sold to approximately 10,000 dealers throughout the United States and foreign countries.

To maximize results, new techniques and equipment are employed to improve efficiency and maintain quality. During the year, we invested \$20.2 million in plant expansion and additional equipment, including \$5 million for a new manufacturing and distribution facility in Chino, California that will enable *Ethan Allen* to serve its customers on the west coast in a more timely and economic manner.

To take advantage of a trend in consumer preference for European-styled wall systems, *Broyhill* established a new manufacturing operation exclusively devoted to this new product line. Utilizing the latest state of the art in equipment and technology, this operation is expected to contribute substantially to *Broyhill's* future growth.

Two factors have partially insulated *Ethan Allen* from existing recessionary conditions. Higher priced furniture and accessories, generally, are not as susceptible to fluctuations in the economy as more moderately priced furniture. Also, *Ethan Allen* Galleries sell primarily the *Ethan Allen* line of American Traditional furniture. This line, which expresses the background and heritage of our country's development, is increasing in popularity. As a leading manufacturer in this design, with a long-established and widely recognized brand, we are well positioned to take advantage of increased market demand.

Major Furniture and Home Furnishings**Brands:**

Ethan Allen
Broyhill
Kling
Knob Creek
Restocrat

Major Retail Trading**Names:**

Carriage House
Georgetown
Georgetown Manor
Manor House

Broyhill inaugurated a new merchandising concept within their dealer's showroom — the *Broyhill* showcase gallery. Utilizing its four product divisions — bedroom, dining room, living room and occasional furniture — along with appropriate accessories, a typical gallery consists of approximately 6,000 square feet. A number of *Broyhill* galleries have been opened during the last year and dealer response to the program has been excellent.

In addition to our domestic markets, our products are distributed in Canada, Europe, Scandinavia, Australia, Japan, South America, Central America and the Middle East. We are aggressively pursuing the growth opportunities in these and other foreign markets.

The years ahead promise great opportunity for the furniture and home furnishings industries. There are more than 80 million households in the United States. Nearly three-fourths of these households have more than one source of income. Also, changing demographics are enlarging the domestic market. Therefore, a large potential demand is developing for all types of home related products. INTERCO, with its efficient manufacturing capability and strong merchandising programs, is positioned for rapid growth in the decade ahead.





During fiscal 1982 and for the eighteenth consecutive year, INTERCO achieved record sales. Operating earnings were slightly ahead of last year and, therefore, a record; however, due mainly to the high interest cost associated with the funds borrowed to retire short-term debt and to finance the increased level of capital expenditures, consolidated earnings and earnings per share were below the records established in fiscal 1981.

The following represents our four operating groups' sales and earnings for a five-year period, in thousands of dollars. Fiscal 1981 has been restated for the retroactive restatement of accounting for compensated absences in accordance with Financial Accounting Standards Board Statement No. 43.

Years Ended	1982	1981	1980	1979	1978
Net sales:					
Apparel	\$ 899,161	\$ 850,970	\$ 818,380	\$ 731,259	\$ 640,487
General Retail ..	672,137	645,940	630,309	582,441	521,178
Footwear	587,035	558,291	554,955	537,758	504,992
Furniture	515,436	313,255	20,663	—	—
Total	<u>\$2,673,769</u>	<u>\$2,368,456</u>	<u>\$2,024,307</u>	<u>\$1,851,458</u>	<u>\$1,666,657</u>
Earnings before income taxes:					
Apparel	\$ 104,824	\$ 109,413	\$ 105,873	\$ 95,585	\$ 86,745
General Retail ..	22,832	27,135	41,149	40,581	38,096
Footwear	78,381	83,600	65,435	61,520	44,552
Furniture	55,279	39,857	3,101	—	—
Total	<u>261,316</u>	<u>260,005</u>	<u>215,558</u>	<u>197,686</u>	<u>169,393</u>
Less corporate expenses and interest cost	38,046	27,984	9,823	10,817	7,814
Total	<u>223,270</u>	<u>232,021</u>	<u>205,735</u>	<u>186,869</u>	<u>161,579</u>
Income taxes	104,655	110,818	99,029	94,293	79,745
Net earnings	<u>\$ 118,615</u>	<u>\$ 121,203</u>	<u>\$ 106,706</u>	<u>\$ 92,576</u>	<u>\$ 81,834</u>
As a percent of sales	<u>4.4%</u>	<u>5.1%</u>	<u>5.3%</u>	<u>5.0%</u>	<u>4.9%</u>

NOTE: For fiscal 1980, the Furniture Group contains the operating results of *Ethan Allen* for the month of February 1980. For fiscal 1981, the Furniture Group includes operating results for a full year for *Ethan Allen* and for three months for *Broyhill*.



From left:
Harvey Saligman,
President and Chief Operating Officer;
John K. Riedy,
Chairman of the Board and
Chief Executive Officer;
Ronald L. Aylward,
Executive Vice President, Administrative.

From left:
Robert T. Hensley, Jr.,
Treasurer;
Duane A. Patterson,
Secretary;
Keith E. Mattern,
General Counsel and Assistant Secretary.

From left:
Russell L. Baumann,
Assistant Controller;
Stanley F. Huck,
Controller;
William R. Withrow,
Assistant Treasurer;
Wilfred G. Morice,
Assistant Controller.

Sales

Net sales for the year were a record \$2.67 billion, an increase of \$305.3 million, or 12.9% over \$2.37 billion for the prior year.

The sales contribution for each operating group of the company is compared, in millions of dollars, as follows:

	Fiscal 1982		Fiscal 1981	
	Sales	%	Sales	%
Apparel.....	\$ 899.2	33.6	\$ 851.0	35.9
General Retail.....	672.2	25.1	645.9	27.3
Footwear.....	587.0	22.0	558.3	23.6
Furniture.....	515.4	19.3	313.3	13.2
	\$2,673.8	100.0	\$2,368.5	100.0

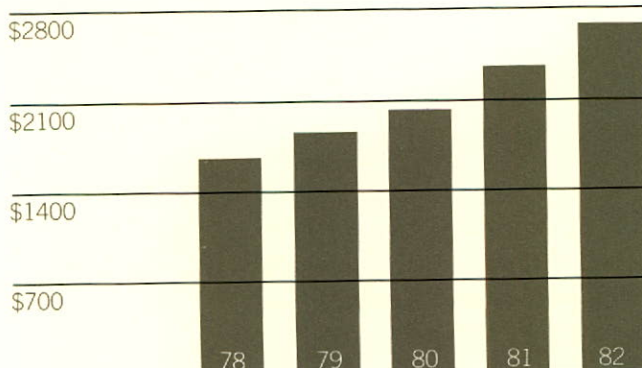
Each of our four operating groups contributed record high sales in fiscal 1982 as well as in fiscal 1981.

Sales for the year continued to be affected by the general slowdown in the economy and the effect of retailers controlling their inventory levels. The Furniture Group was particularly affected by the high interest cost relating to consumer credit and the depressed new housing sales.

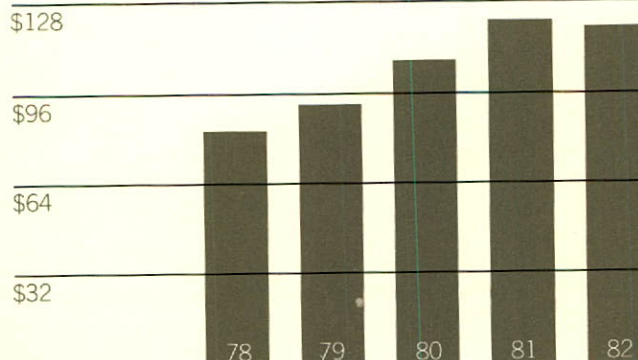
The net sales of the company, by quarter, in millions of dollars were:

	Fiscal 1982	Fiscal 1981
First quarter.....	\$ 639.4	\$ 532.4
Second quarter.....	713.7	599.1
Third quarter.....	717.0	607.0
Fourth quarter.....	603.7	630.0
	\$2,673.8	\$2,368.5

Net Sales
(In Millions)



Net Earnings
(In Millions)



Earnings

Earnings before income taxes were \$223.3 million, a decrease of \$8.8 million, or 3.8% from last year.

Operating earnings by each operating group are compared, in millions of dollars, as follows:

	Fiscal 1982		Fiscal 1981	
	Amount	%	Amount	%
Apparel.....	\$104.8	40.1	\$109.4	42.1
General Retail.....	22.8	8.7	27.1	10.4
Footwear.....	78.4	30.0	83.6	32.2
Furniture.....	55.3	21.2	39.9	15.3
	<u>\$261.3</u>	<u>100.0</u>	<u>\$260.0</u>	<u>100.0</u>

Our margin of profitability, operating earnings to sales, was 11.7% for the Apparel Group, 3.4% for the General Retail Group, 13.4% for the Footwear Group, and 10.7% for the Furniture Group. Margins in the General Retail Group were affected by above normal markdowns and heavy promotions during the year.

Net earnings for the year were \$118.6 million, a decrease of \$2.6 million or 2.1% from the net earnings of \$121.2 million for the previous year.

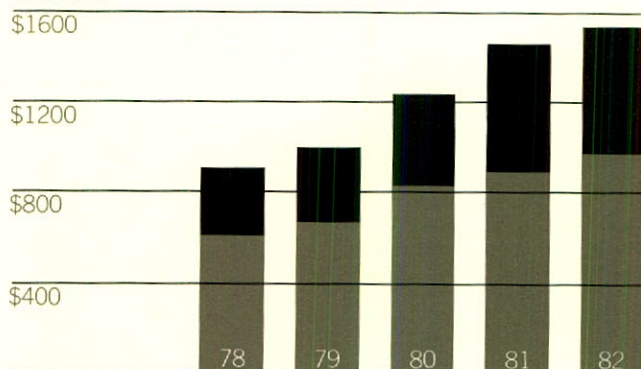
Earnings per share were \$7.23, a decrease of 2.6% from the \$7.42 in fiscal 1981.

Net earnings and earnings per common share for each quarter are compared in the following:

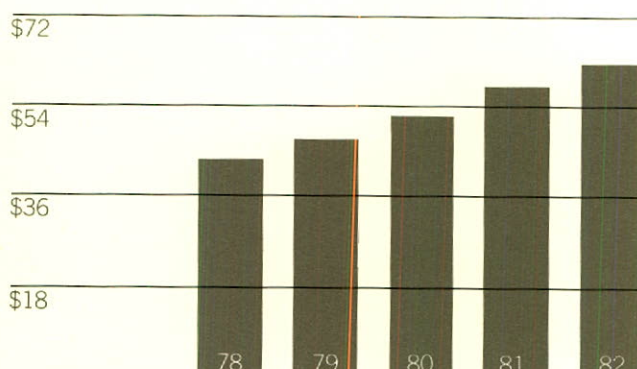
	Net Earnings In Millions		Earnings Per Share	
	Fiscal 1982	Fiscal 1981	Fiscal 1982	Fiscal 1981
First quarter.....	\$ 25.4	\$ 23.0	\$1.55	\$1.41
Second quarter.....	32.3	29.8	1.97	1.82
Third quarter.....	31.2	33.0	1.90	2.02
Fourth quarter.....	29.7	35.4	1.81	2.17
	<u>\$118.6</u>	<u>\$121.2</u>	<u>\$7.23</u>	<u>\$7.42</u>

Total Assets Total Stockholders' Equity

(In Millions)



Book Value Per Common Share



Financial Position

The company's strong financial position continued during the 1982 fiscal year.

- Working capital, the excess of current assets over current liabilities, was \$785.3 million at the end of fiscal 1982. The current ratio was 4.0 to 1 at February 28, 1982.
- Accounts receivable were \$302.9 million at February 28, 1982, a decrease of 1.7% from the prior year.
- Inventories increased by 9.6% to \$694.2 million at February 28, 1982.
- Total assets increased \$66.8 million and aggregated \$1.54 billion at February 28, 1982 as compared to \$1.47 billion at February 28, 1981.
- Long-term debt, including capitalized leases of \$76.8 million, was \$274.9 million at year end, which is a debt to equity ratio of 22.7%.
- Stockholders' equity was \$985.1 million at February 28, 1982, an increase of 8.1% from \$910.9 million at the end of fiscal 1981. The return on average stockholders' investment was 12.5% for fiscal 1982. Book value per common share increased to \$62.36 from \$57.76 one year ago.

Capital Expenditures

Capital expenditures of \$52.3 million, which included \$3.9 million of capital leases, were made during fiscal 1982 for new retail outlets, new manufacturing plants and distribution centers, the refurbishment of a number of retail locations, the modernization of manufacturing plants and equipment, and the expansion of existing distribution facilities. Depreciation expense for the year was \$39.4 million.

For fiscal 1983, capital expenditures for company owned property are forecast to be \$54 million and will include approximately 60 general retail and footwear stores and departments, as well as expansion of manufacturing plants and distribution centers. Depreciation for fiscal 1983 will be approximately \$40 million.

Dividends

Fiscal 1982 was the 17th consecutive year of increased common stock dividends and the 71st consecutive year of cash dividend payments. Cash dividends of \$48.5 million were paid during the fiscal year, with \$40.7 million to holders of common stock and the remainder to holders of preferred stock.

Quarterly common stock cash dividends per share were paid as follows:

	Fiscal 1982	Fiscal 1981
First quarter	\$0.72	\$0.66
Second quarter	0.72	0.66
Third quarter	0.72	0.66
Fourth quarter	0.72	0.66
	<u>\$2.88</u>	<u>\$2.64</u>

The quarterly dividend rate on common stock is \$0.72 per common share, an annual indicated rate of \$2.88 per common share.

The annual dividend rate on the Series D preferred stock is \$7.75 per share.

Capital Stock

On February 28, 1982, there were 14,200,276 shares of common stock and 995,722 shares of preferred stock outstanding.

The Board has authorized the repurchase of 1,000,000 common shares. Through February 28, 1982, we had purchased 571,665 shares on the open market or by private transaction at a cost of \$22.2 million.

The common and preferred shares of INTERCO are traded on the New York Stock Exchange. Fluctuation in the high and low quoted prices, for each quarter, are shown in the following:

	Fiscal 1982				Fiscal 1981			
	Common		Preferred		Common		Preferred	
	High	Low	High	Low	High	Low	High	Low
First quarter	\$54¾	\$48¾	\$117	\$106	\$42	\$36½	\$ 90	\$ 81
Second quarter . . .	57¾	51	123	112½	51½	40	111	88
Third quarter	53¾	45½	115	100	53¾	46½	116	107
Fourth quarter . . .	50	39½	106	90½	49¼	44¼	108	95

The closing market price of INTERCO's common and preferred stock at fiscal year end 1982 was \$40¾ and \$90½ per share, respectively.

Trademarks and Tradenames

The trademarks and tradenames of INTERCO and its subsidiaries, appearing in this Annual Report, are italicized.

Charts

The charts, in the Fiscal 1982 in Review, have been restated where applicable in accordance with the Financial Accounting Board Statement No. 43.

Form 10-K — Annual Report

A copy of INTERCO INCORPORATED's current Form 10-K filed with the Securities and Exchange Commission can be obtained by writing to: Treasurer, INTERCO INCORPORATED, Ten Broadway, St. Louis, Missouri 63102.

INTERCO Consolidated Financial Statements

Contents	Page
Consolidated Balance Sheet	26
Consolidated Statement of Earnings	28
Consolidated Statement of Changes in Financial Position	29
Consolidated Statement of Stockholders' Equity	30
Notes to Consolidated Financial Statements	31
Independent Accountants' Report	43

Consolidated Balance Sheet

(Dollars in thousands except per share data)

	February 28 1982	February 28 1981
Assets		
Current assets:		
Cash	\$ 9,812	\$ 6,326
Marketable securities	17,198	11,827
Receivables, less allowances of \$14,708 (\$14,455 in 1981)	302,877	308,051
Inventories	694,184	633,514
Prepaid expenses and other current assets	19,537	23,867
Total current assets	<u>1,043,608</u>	<u>983,585</u>
Marketable investment securities	14,432	14,298
Property, plant and equipment:		
Land	25,308	26,238
Buildings and improvements	358,587	347,250
Machinery and equipment	243,635	227,541
	<u>627,530</u>	<u>601,029</u>
Less accumulated depreciation	210,423	188,922
Net property, plant and equipment	<u>417,107</u>	<u>412,107</u>
Other assets	63,803	62,116
	<u>\$1,538,950</u>	<u>\$1,472,106</u>

Liabilities and Stockholders' Equity	February 28 1982	February 28 1981
Current liabilities:		
Notes payable	\$ 3,568	\$ —
Current maturities of long-term debt	14,053	12,958
Current maturities of capital lease obligations	5,952	5,845
Accounts payable	148,071	161,692
Accrued employee compensation	35,583	34,088
Other accrued expenses	33,842	32,243
Income taxes	17,211	25,208
Total current liabilities	258,280	272,034
Long-term debt, less current maturities	198,054	187,208
Obligations under capital leases, less current maturities	76,820	79,925
Other long-term liabilities	20,724	22,066
Stockholders' equity:		
Preferred stock, no par value, authorized 10,000,000 shares — issued 995,722 shares in 1982 and 1,014,399 shares in 1981	99,572	101,440
Common stock, \$7.50 stated value, authorized 50,000,000 shares — issued 14,771,941 shares in 1982 and 14,585,248 shares in 1981	110,789	109,389
Capital surplus	54,512	47,961
Retained earnings	742,356	674,240
	1,007,229	933,030
Less 571,665 shares of common stock in treasury, at cost	22,157	22,157
Total stockholders' equity	985,072	910,873
	<u>\$1,538,950</u>	<u>\$1,472,106</u>

Consolidated Statement of Earnings

(Dollars in thousands except per share data)

Years Ended	February 28 1982	February 28 1981	February 29 1980
Income:			
Net sales	\$2,673,769	\$2,368,456	\$2,024,307
Other income, net	28,801	27,419	23,960
	<u>2,702,570</u>	<u>2,395,875</u>	<u>2,048,267</u>
Costs and expenses:			
Cost of sales	1,820,369	1,591,635	1,379,768
Selling, general and administrative expenses	621,730	551,935	453,448
Interest expense	37,201	20,284	9,316
	<u>2,479,300</u>	<u>2,163,854</u>	<u>1,842,532</u>
Earnings before income taxes	223,270	232,021	205,735
Income taxes	104,655	110,818	99,029
Net earnings	<u>\$ 118,615</u>	<u>\$ 121,203</u>	<u>\$ 106,706</u>
Earnings per share	<u>\$7.23</u>	<u>\$7.42</u>	<u>\$7.35</u>

Consolidated Statement of Changes in Financial Position

(Dollars in thousands)

Years Ended	February 28 1982	February 28 1981	February 29 1980
Working capital provided by:			
Net earnings	\$118,615	\$121,203	\$106,706
Items not affecting working capital:			
Depreciation	39,400	32,845	24,390
Other, net	5,969	2,406	1,973
Operations	163,984	156,454	133,069
Disposal of property, plant and equipment	7,438	3,038	4,873
Issuance of preferred stock	396	3,666	88,762
Issuance of common stock	7,995	1,473	298
Additions to long-term debt	25,880	136,992	320
Additions to capital lease obligations	3,920	5,509	4,759
Reduction of marketable investment securities	500	28,416	7,846
Other, net	—	—	1,751
	210,113	335,548	241,678
Working capital used for:			
Cash dividends	48,492	44,553	33,563
Additions to property, plant and equipment:			
Company owned property	48,353	62,857	41,849
Leased property	3,940	5,860	4,759
Reduction of long-term debt	15,273	16,571	9,227
Reduction of capital lease obligations	6,500	6,302	5,402
Purchase of common treasury shares	—	6,896	9,474
Conversion of preferred stock	2,308	159	—
Marketable investment securities	—	3,993	7,677
Additional payment — purchased company	2,523	—	—
Other, net	8,947	1,316	—
	136,336	148,507	111,951
Acquisitions (less working capital of \$69,276 in 1981 and \$90,664 in 1980):			
Properties	—	69,637	84,650
Long-term debt and capital lease obligations	—	(6,562)	(41,112)
Excess of cost over fair value of net assets acquired	—	19,314	13,098
Other, net non-current assets	—	(66)	4,136
Net non-current assets	—	82,323	60,772
	136,336	230,830	172,723
Increase in working capital	\$ 73,777	\$104,718	\$ 68,955
Working capital increased (decreased) by:			
Cash and marketable securities	\$ 8,857	\$ (41,419)	\$ (8,590)
Receivables	(5,174)	64,308	27,197
Inventories	60,670	104,456	89,099
Prepaid expenses and other current assets	(4,330)	3,050	10,937
Notes payable	(3,568)	—	—
Current maturities of long-term debt	(1,095)	(6,623)	(2,311)
Current maturities of capital lease obligations	(107)	(344)	(1,899)
Accounts payable and accrued expenses	10,527	(33,244)	(37,535)
Income taxes	7,997	14,534	(7,943)
	\$ 73,777	\$104,718	\$ 68,955

Consolidated Statement of Stockholders' Equity

(Dollars in thousands except per share data)

	Preferred Stock	Common Stock		Capital Surplus	Retained Earnings	Total
		Issued	Treasury			
Balance February 28, 1979.....	\$ —	\$109,041	\$ (5,787)	\$55,709	\$525,201	\$684,164
Net earnings.....					106,706	106,706
Cash dividends:						
Common stock — \$2.35 per share....					(33,563)	(33,563)
Issuance of 934,249 preferred shares for acquisition.....	93,425			(8,097)		85,328
Issuance of 38,127 preferred shares for conversion of debentures	3,813			(379)		3,434
Exercise of stock options:						
Common — 10,294 shares.....		77		159		236
Restricted stock plan:						
Common — 1,672 shares		13		49		62
Purchase of 242,426 common treasury shares.....			(9,474)			(9,474)
Investment valuation allowance					(580)	(580)
Balance February 29, 1980.....	97,238	109,131	(15,261)	47,441	597,764	836,313
Net earnings.....					121,203	121,203
Cash dividends:						
Preferred stock.....					(7,511)	(7,511)
Common stock — \$2.64 per share....					(37,042)	(37,042)
Issuance of 39,964 preferred shares for conversion of debentures	3,996			(432)		3,564
Issuance of 50 additional preferred shares for acquisition.....	5			(1)		4
Conversion of preferred stock:						
Series D — 1,591 shares	(159)	26		133		—
Exercise of stock options:						
Preferred — 3,600 shares.....	360			(262)		98
Common — 29,780 shares		223		1,044		1,267
Restricted stock plan:						
Common — 1,284 shares.....		9		38		47
Purchase of 176,939 common treasury shares.....			(6,896)			(6,896)
Investment valuation allowance					(174)	(174)
Balance February 28, 1981	101,440	109,389	(22,157)	47,961	674,240	910,873
Net earnings.....					118,615	118,615
Cash dividends:						
Preferred stock.....					(7,809)	(7,809)
Common stock — \$2.88 per share....					(40,683)	(40,683)
Issuance of 4,402 preferred shares for conversion of debentures	440			(44)		396
Conversion of preferred stock:						
Series D — 23,079 shares	(2,308)	374		1,933		(1)
Exercise of stock options:						
Common — 79,930 shares		600		2,497		3,097
Restricted stock plan:						
Common — 1,320 shares.....		10		58		68
Issuance of 55,556 contingent common shares.....		416		2,107		2,523
Investment valuation allowance					507	507
Equity adjustments from foreign currency translations					(2,514)	(2,514)
Balance February 28, 1982.....	<u>\$ 99,572</u>	<u>\$110,789</u>	<u>\$(22,157)</u>	<u>\$54,512</u>	<u>\$742,356</u>	<u>\$985,072</u>

Notes to Consolidated Financial Statements

(Dollars in thousands except per share data)

1. Significant Accounting Policies

The company and its subsidiaries employ generally accepted accounting principles to present fairly their consolidated financial position, results of operations, and changes in financial position. The major accounting policies of the company are set forth below.

Principles of Consolidation — The consolidated financial statements include the accounts of the company and all domestic and foreign subsidiaries, the majority of which are wholly owned. All material intercompany transactions have been eliminated in consolidation.

Fiscal Year — The company's fiscal year ends on the last day of February. In this report, reference to fiscal 1982 refers to the fiscal year ended February 28, 1982, fiscal 1981 refers to the fiscal year ended February 28, 1981, and fiscal 1980 refers to the fiscal year ended February 29, 1980.

Marketable Securities — Marketable securities, consisting principally of commercial paper, are stated at cost which approximates market.

Inventories — Inventories are stated at the lower of cost (first-in, first-out) or market, except for most footwear manufacturing inventories which are valued on the "last-in, first-out" method of inventory valuation.

Marketable Investment Securities — Marketable investment securities consist of bonds and preferred stocks held for long-term investment. Dividend and interest income are accrued as earned. The cost of marketable investment securities sold is determined on the specific identification method.

Marketable equity securities (preferred stocks) are carried at the lower of cost or market. A valuation allowance, representing the excess of cost over market of these equity securities, is included in stockholders' equity. Other marketable investment securities (bonds) are carried at cost as there is no indication of a permanent impairment in value in any portion of the portfolio and there is no intention to liquidate the securities portfolio at less than cost.

Property, Plant and Equipment — Property, plant and equipment is stated at cost. Facilities and equipment leased under capital leases are included in property, plant and equipment with the corresponding principal payments carried in obligations under capital leases. Expenditures for improvements are capitalized, while normal repairs and maintenance are expensed as incurred. When properties are retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the accounts and gains or losses on the dispositions are reflected in operations.

Depreciation — For financial reporting purposes, the company employs both accelerated and straight-line methods of computing depreciation. Amortization of assets recorded under capital leases is included in depreciation expense. Depreciation expense is computed based on the estimated useful lives of the respective assets which generally range from 15 to 45 years for buildings and improvements, and from 3 to 20 years for machinery and equipment. Approximately 84%, 87% and 86% of depreciation expense was computed on the straight-line method in fiscal 1982, 1981 and 1980, respectively.

Excess of Cost Over Fair Value of Net Assets Acquired — The excess of cost over fair value of net assets of companies acquired is being amortized on a straight-line basis, generally over 40 years.

Start-Up Expenses — Start-up expenses of new facilities are charged to operations in the fiscal year incurred.

Pension Plans — The company's policy with respect to pension plans is to fund pension costs accrued, and to amortize prior service costs, generally over 30 years.

Income Taxes — Investment tax credits are reflected as a reduction of Federal income taxes in the period in which qualified property is placed in service. It is the company's intent that the undistributed earnings of subsidiaries will either be reinvested in the subsidiaries or distributed tax-free to the parent company. Accordingly, no provision has been made for income taxes on such undistributed earnings.

Notes to Consolidated Financial Statements

(Dollars in thousands except per share data)
(Continued)

2. Accounting Changes

In fiscal 1982, the company complied with the provisions of Statements No. 43 (Accounting for Compensated Absences) and No. 52 (Foreign Currency Translation) of the Financial Accounting Standards Board (FASB).

In accordance with Statement No. 43, the company adjusted its vacation accrual to cover all employees, whereas, previously this accrual applied primarily to employees involved in production operations. Accordingly, fiscal 1981 operating results were restated. The effect of the restatement on fiscal 1981, including the cumulative effect on all periods prior to fiscal 1981 amounting to \$2,556 or \$0.16 per share, resulted in a reduction in net earnings of \$3,127 or \$0.19 per share.

The net effect of changes in foreign currency translations between Statement No. 52, adopted in fiscal 1982, and Statement No. 8, in effect at February 28, 1981, was immaterial and, accordingly, no adjustment was made to retained earnings at the beginning of the year. In fiscal 1982, the adoption of Statement No. 52 resulted in a net unrealized loss of \$2,514 which was charged to retained earnings.

3. Business Combinations

On December 1, 1980, the company purchased all the outstanding stock of Broyhill Furniture Industries, Inc., a manufacturer of household furniture and other furniture related products. The acquisition price of \$151,599, including capitalized expenses, was paid by the issuance of five-year, 10% notes, totaling \$43,581 with equal annual payments, the issuance of a short-term, 10% note totaling \$59,728, which matured on January 12, 1981, and the remainder in cash. The total acquisition cost exceeded the fair value of the net assets acquired by \$19,314.

On January 28, 1980, the company purchased all the outstanding stock of Ethan Allen, Inc., a manufacturer and retailer of household furniture and related home furnishings. The acquisition price of \$151,436, including capitalized expenses, was paid by the issuance of 934,299 shares of INTERCO INCORPORATED Series D preferred stock with an assumed fair market value of \$91.50 per share, and the remainder in cash.

The following unaudited summary, prepared on a pro forma basis, combines the consolidated results of operations of the company for fiscal years 1981 and 1980 with those of Broyhill Furniture Industries, Inc. for its forty-one weeks ended November 29, 1980 and its fiscal year ended November 24, 1979, and Ethan Allen, Inc. for its fiscal year ended September 29, 1979.

	1981	1980
Net sales	\$2,564,351	\$2,495,543
Net earnings	\$ 123,562	\$ 128,246
Earnings per share	\$7.56	\$7.74

The pro forma data have been adjusted, net of income tax effects, to reflect interest expense and depreciation and amortization of the fair market value of the acquired assets and the excess of cost over fair value of the net assets acquired.

4. Inventories

Inventories are summarized as follows:

	1982	1981
Retail merchandise	\$298,009	\$273,853
Finished products	193,686	169,694
Work in process	60,455	59,443
Raw materials	142,034	130,524
	<u>\$694,184</u>	<u>\$633,514</u>

All the major categories of inventory, except retail merchandise, include certain items priced on the "last-in, first-out" method. Had the "first-in, first-out" method been applied to all inventories, they would have been stated at approximately \$726,249 and \$664,927 at February 28, 1982 and 1981, respectively.

5. Marketable Investment Securities

Marketable investment securities consist of the following:

	1982	1981
Marketable equity securities, at cost	\$ 3,586	\$ 3,586
Less valuation allowance	247	754
Marketable equity securities, at market	3,339	2,832
Bonds, at cost	11,093	11,466
	<u>\$14,432</u>	<u>\$14,298</u>

The portfolio of marketable equity securities includes gross unrealized gains of \$525 and unrealized losses of \$772 at February 28, 1982. Net realized losses on the sale of securities, after applicable taxes, included in the determination of net earnings amounted to \$393 and \$90 for fiscal 1981 and 1980, respectively. There were no realized gains or losses in fiscal 1982.

6. Lines of Credit

Average short-term borrowings outstanding during fiscal 1982 and 1981 were \$39,000 and \$50,600 with a weighted average interest rate thereon of 16.5% and 12.3%, respectively. Maximum short-term borrowings at any month end were \$64,500 in fiscal 1982 and \$80,300 in fiscal 1981.

The company amended its credit agreement effective April 1, 1981, enabling it to borrow up to \$100,000 in domestic or Euro-Dollar loans through February 28, 1983. Borrowings outstanding as of February 28, 1983, are repayable from that date through February 29, 1988. Domestic interest rates will approximate bank prime while rates for Euro-Dollar borrowings will approximate the London Inter-Bank Offering Rate plus 0.5%. The amended agreement requires the company to pay a maximum commitment fee of 0.375% per annum. There were no borrowings outstanding under the agreement at February 28, 1982.

The company also maintains other bank lines of credit which will provide credit availability and support the sale of commercial paper. On February 28, 1982, these unused lines of credit were \$105,000.

7. Long-Term Debt

Long-term debt consists of the following:

	1982	1981
14¼% promissory notes due February 15, 1991	\$100,000	\$ —
Commercial paper	—	80,298
10% promissory installment notes, payable \$8,716 annually, 1982 through 1985	34,864	43,581
4½% promissory installment notes, payable \$1,875 annually, 1982-1989, and balance in 1990	27,500	29,375
8½% promissory installment note, payable \$1,000 annually, 1982-1993, and balance in 1994	17,000	18,000
7¾% to 11½% industrial revenue bonds maturing 1983 through 2011	18,476	12,745
5¼% convertible subordinated debentures due August 1, 1996	59	79
4⅞% convertible subordinated debentures due January 1, 1998	514	946
Other debt at 1% to 12% interest rates, payable in varying amounts through 2006	16,508	18,708
	<u>214,921</u>	<u>203,732</u>
Less current maturities	14,053	12,958
Less present value adjustment	2,814	3,566
	<u>\$198,054</u>	<u>\$187,208</u>

Notes to Consolidated Financial Statements

(Dollars in thousands except per share data)
(Continued)

On March 3, 1981, the company sold \$100,000 of 14¼% promissory notes with delayed delivery of \$14,250 in June 1981 and \$15,000 in July 1981. The notes mature on February 15, 1991 and are subject to call on February 15, 1988, without penalty. Commission on the sale, amounting to \$700, along with other expenses paid in connection with the issuance, will be charged to operations as interest expense over the life of the notes. At February 28, 1981, the company's outstanding commercial paper amounted to \$80,298. The proceeds of the \$100,000 notes received on March 3, 1981, were used to reduce commercial paper in the amount of \$70,050 and the balance was redeemed with the proceeds received from the delayed delivery; therefore, the outstanding commercial paper balance at February 28, 1981 was accounted for as long-term debt.

The present value adjustment reflected in the table relates to purchase adjustments of the long-term debt assumed in the acquisition of Ethan Allen, Inc.

Maturities of long-term debt are \$14,053, \$13,185, \$17,974, \$13,196 and \$6,259 for fiscal years 1983 through 1987, respectively.

The 5¼% and 4⅞% convertible subordinated debentures are convertible into the company's Series D preferred stock prior to maturity at \$62.00 and \$105.50 per share, respectively, subject to anti-dilution provisions. They are subordinated as to principal and interest to all senior indebtedness, are redeemable at the company's option prior to maturity at prices ranging from 102.875% to 100% of the principal amount, and are subject to annual sinking fund payments beginning in 1982 and 1984, respectively.

The various loan agreements contain restrictions relating to the financial condition of the company. The most restrictive of these covenants require that the working capital ratio be at least 2.0 to 1, tangible net worth be at least \$600,000, retained earnings be at least \$43,810, funded indebtedness not exceed 60% of tangible net worth or exceed 50% of net tangible assets, debt secured by liens not exceed 15% of tangible net worth, and domestic subsidiary borrowing not exceed \$50,000.

8. Obligations Under Capital Leases

The amount capitalized under capital leases is the lower of the present value of the minimum lease payments or the fair value of the leased properties at the beginning of the respective lease terms. Generally, interest rates applicable to capital leases range between 4¾% and 16¾% for leased facilities and between 7¾% and 27% for leased equipment. Obligations under capital leases amounted to \$82,772 and \$85,770 at February 28, 1982 and 1981, respectively. Maturities of these obligations are \$5,952, \$5,891, \$5,142, \$5,227 and \$5,397 for fiscal years 1983 through 1987, respectively.

9. Capitalized Interest

During fiscal 1982 and 1981, the company capitalized \$581 and \$832, respectively, of interest expense incurred during the period of time required to prepare certain assets for their intended use. As a result, interest expense, as reported in the financial statements, has been reduced and property, plant and equipment has been increased by the amount of interest capitalized.

10. Preferred Stock

The company's preferred stock is issuable in series. At February 28, 1982 and 1981, the outstanding preferred stock consisted of 995,722 and 1,014,399 shares, respectively, of Series D \$7.75 cumulative convertible with stated and involuntary liquidating value of \$100.00 per share.

Each share of the Series D preferred stock is convertible into 2.1621 shares of the company's common stock. The Series D preferred stock may be redeemed on or after January 29, 1989, at \$104.75 per share, decreasing to \$100.00 per share in 1994. Subject to the satisfaction of certain conditions relating to common stock dividends paid, the Series D preferred stock may be redeemed on or after January 29, 1986 at \$107.75 per share, decreasing to \$100.00 per share in 1994.

At February 28, 1982, 5,823 shares of Series D preferred stock were reserved for the conversion of the 5¼% and 4⅞% convertible, subordinated debentures.

11. Common Stock

Shares of common stock were reserved for the following purposes at February 28, 1982:

	Number of Shares
Common stock options:	
Granted	522,393
Available for grant	94,110
Restricted stock plan of pooled company	133
Conversion of preferred stock	2,165,440
	<u>2,782,076</u>

On October 12, 1981, the Board of Directors adopted changes in the 1972, 1977 and 1980 Stock Option Plans authorizing the granting of Incentive Stock Options. In addition, the Board approved a conversion to Incentive Stock Options for optionees holding unexercised non-qualified options under the 1972, 1977 and 1980 plans, subject to the limitations of the Economic Recovery Tax Act of 1981. As a result, 309,359 shares previously granted under these plans as non-qualified options were converted to incentive stock options.

Under the company's stock option plans, certain key employees may be granted incentive options, non-qualified options, stock appreciation rights, or combinations thereof. Non-qualified options and related stock appreciation rights granted under the 1977 Plan may not be less than 85% of the fair market value (100% as to incentive options and related stock appreciation rights) of the common stock on the date of grant. Options and stock appreciation rights granted under the 1980 Plan may not be less than 100% of the fair market value of the common stock on the date of grant. All options which have been granted, incentive or non-qualified, were at 100% of fair market value on the date of grant. Incentive options and non-qualified options expire ten years after the date of grant. At February 28, 1982, no stock appreciation rights have been granted. No additional options may be granted under the 1972 plan.

At February 28, 1982, information regarding options granted but not exercised under the three plans is as follows:

Option Shares Outstanding	Dates of Grant	Price Range
1972 Plan 65,423	September 5, 1974 — October 15, 1981	\$20.50 - \$48.00
1977 Plan 219,720	November 17, 1978 — October 15, 1981	\$35.00 - \$54.25
1980 Plan 237,250	December 19, 1980 — October 15, 1981	\$44.88 - \$52.50

Changes in options granted are summarized as follows:

	1982		1981		1980	
	Shares	Average Price	Shares	Average Price	Shares	Average Price
Beginning of year	394,334	\$35.49	371,821	\$34.29	394,283	\$33.94
Granted	237,550	49.79	63,750	42.28	6,050	40.61
Exercised	(79,930)	32.75	(29,780)	34.66	(10,294)	21.92
Cancelled	(29,561)	39.38	(11,457)	36.46	(18,218)	35.73
End of year	<u>522,393</u>	<u>\$42.19</u>	<u>394,334</u>	<u>\$35.49</u>	<u>371,821</u>	<u>\$34.29</u>
Exercisable at end of year	<u>112,805</u>		<u>142,882</u>		<u>75,869</u>	

Notes to Consolidated Financial Statements

(Dollars in thousands except per share data)
(Continued)

12. Income Taxes

Income tax expense is composed of the following:

	1982	1981	1980
Current:			
Federal	\$ 83,335	\$ 96,699	\$ 87,621
State and local	11,765	12,196	11,341
Foreign	3,807	1,475	2,815
	<u>98,907</u>	<u>110,370</u>	<u>101,777</u>
Deferred	5,748	448	(2,748)
	<u>\$104,655</u>	<u>\$110,818</u>	<u>\$ 99,029</u>
Investment and jobs tax credits	\$ 3,079	\$ 3,023	\$ 2,025

The following table reconciles the differences between the Federal corporate statutory rate and the company's effective income tax rate:

	1982	1981	1980
Federal corporate statutory rate	46.0%	46.0%	46.0%
State and local income taxes, net of Federal tax benefit	2.9	2.8	2.9
Investment tax credits	(1.4)	(1.2)	(1.0)
Foreign taxes, including foreign currency translation effects	(0.2)	0.2	0.2
Other	(0.4)	—	—
Effective income tax rate	<u>46.9%</u>	<u>47.8%</u>	<u>48.1%</u>

Certain items are recognized for income tax purposes in years other than those in which they are reported in the consolidated financial statements. Future Federal income tax benefits at February 28, 1982 and 1981 are included in the accompanying consolidated balance sheet, as follows:

	1982	1981
Prepaid expenses and other current assets	\$7,427	\$9,974
Other long-term liabilities	(7,384)	(4,183)
	<u>\$ 43</u>	<u>\$5,791</u>

The Federal income tax returns of the company and its major subsidiaries have been examined through fiscal year ended February 28, 1978.

13. Pension Plans

The company and its subsidiaries have several pension plans covering substantially all employees, including certain employees in foreign countries. Total pension expense was \$20,100, \$17,000 and \$15,100 in fiscal 1982, 1981 and 1980, respectively. The company makes annual contributions to the plans equal to the amounts accrued for pension expense. Accumulated plan benefits and plan net assets for the company's defined benefit plans as of the most recent valuation dates are presented below:

	1982	1981
Actuarial present value of accumulated plan benefits:		
Vested	\$131,186	\$128,305
Nonvested	11,388	16,162
	<u>\$142,574</u>	<u>\$144,467</u>
Net assets (at market value) available for benefits	<u>\$101,310</u>	<u>\$ 86,756</u>

The weighted average assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 6.7% and 6.3% in fiscal 1982 and 1981, respectively.

14. Lease Commitments

Substantially all of the company's retail outlets and certain other real properties and equipment are operated under lease agreements expiring at various dates through the year 2022. Leases covering retail outlets and equipment generally require, in addition to stated minimums, contingent rentals based on retail sales and equipment usage. Generally, the leases provide for renewal for various periods at stipulated rates.

Assets recorded under capital leases are as follows:

	1982	1981
Land	\$ 1,047	\$ 1,068
Buildings	89,596	88,092
Machinery and equipment	11,812	12,892
	<u>102,455</u>	<u>102,052</u>
Accumulated depreciation	32,513	28,535
	<u>\$ 69,942</u>	<u>\$ 73,517</u>

Future minimum lease payments under capital leases, reduced by minimum rentals from subleases of \$2,426, at February 28, 1982 aggregate \$155,938 of which \$82,772 is included in obligations under capital leases and current maturities, \$58,859 represents interest and the balance represents other costs of the leases including taxes, insurance and maintenance. Annual payments under capital leases are \$14,417, \$13,654, \$12,344, \$11,941 and \$11,617 for fiscal years 1983 through 1987, respectively.

Total rent expense was as follows:

	1982	1981	1980
Basic rentals under operating leases....	\$42,569	\$36,537	\$31,144
Contingent rentals, operating and capital leases	28,882	25,178	22,042
	<u>71,451</u>	<u>61,715</u>	<u>53,186</u>
Less sublease rentals	1,944	1,524	1,377
	<u>\$69,507</u>	<u>\$60,191</u>	<u>\$51,809</u>

Included in rent expense above is the cost of services provided by lessors of leased retail departments, estimated to aggregate \$13,200, \$10,400 and \$8,800 in fiscal years 1982, 1981 and 1980, respectively.

Future minimum lease payments under operating leases, reduced by minimum rentals from subleases of \$6,033, at February 28, 1982 aggregate \$241,023. Annual payments under operating leases are \$35,178, \$31,714, \$28,338, \$25,346 and \$22,631 for fiscal years 1983 through 1987, respectively.

The company has also guaranteed leases of certain retail outlets of customers which, at February 28, 1982, aggregate approximately \$2,800 based on minimum rentals.

15. Litigation

The company is a defendant and may become a defendant in a number of pending or threatened legal proceedings in the ordinary course of business. In the opinion of management, the ultimate liability, if any, of the company from all such proceedings will not have a material adverse effect upon the consolidated financial position or results of operations.

16. Earnings Per Share of Common Stock

Earnings per share are based on the weighted average number of shares of common stock and common stock equivalents outstanding during the year, plus those common shares which would have been issued if conversion of all preferred stock and convertible debentures had taken place at the beginning of each year or since date of issuance. Stock options, the exercise of which would result in dilution of earnings per share, are considered common stock equivalents. Net earnings for these computations are increased by the net interest expense on the convertible debentures. Primary earnings per share do not differ significantly from fully diluted earnings per share.

Notes to Consolidated Financial Statements

(Dollars in thousands except per share data)
(Continued)

17. Business Segment Information

The company's four business segments are Apparel Manufacturing, General Retail Merchandising, Footwear Manufacturing and Retailing, and Furniture and Home Furnishings. Specific information relating to the operating companies and their products, which comprise each segment, is included on page 1 and on pages 4 through 19 of the Annual Report.

Summarized financial information by business segment is as follows:

	1982	1981	1980
Sales to unaffiliated customers:			
Apparel	\$ 899,161	\$ 850,970	\$ 818,380
General Retail	672,137	645,940	630,309
Footwear	587,035	558,291	554,955
Furniture	515,436	313,255	20,663
Total	<u>\$2,673,769</u>	<u>\$2,368,456</u>	<u>\$2,024,307</u>
Operating earnings:			
Apparel	\$ 104,824	\$ 109,413	\$ 105,873
General Retail	22,832	27,135	41,149
Footwear	78,381	83,600	65,435
Furniture	55,279	39,857	3,101
	<u>261,316</u>	<u>260,005</u>	<u>215,558</u>
Corporate expenses and interest cost	<u>(38,046)</u>	<u>(27,984)</u>	<u>(9,823)</u>
Earnings before income taxes	<u>\$ 223,270</u>	<u>\$ 232,021</u>	<u>\$ 205,735</u>
Identifiable assets at year end:			
Apparel	\$ 444,948	\$ 441,429	\$ 368,437
General Retail	352,206	330,064	311,159
Footwear	304,186	289,943	272,415
Furniture	414,823	401,467	204,707
	<u>1,516,163</u>	<u>1,462,903</u>	<u>1,156,718</u>
Corporate assets	<u>22,787</u>	<u>9,203</u>	<u>82,318</u>
Total	<u>\$1,538,950</u>	<u>\$1,472,106</u>	<u>\$1,239,036</u>
Depreciation expense:			
Apparel	\$ 8,968	\$ 7,953	\$ 6,942
General Retail	11,575	10,780	9,675
Footwear	7,274	6,798	6,735
Furniture	10,692	6,526	365
Capital expenditures:			
Apparel	\$ 9,912	\$ 23,448	\$ 12,266
General Retail	10,340	24,825	19,364
Footwear	10,813	9,604	9,876
Furniture	20,165	9,932	1,517

The above figures included under 1981, where applicable, have been restated in accordance with the Financial Accounting Standards Board Statement No. 43.

Sales between business segments, which account for less than 1% of the sales of any one business segment, are considered immaterial and are netted against the sales of the respective segment. Operating earnings of the business segment are its sales less all operating expenses. Minority interests in certain subsidiaries are immaterial and have been included in corporate expenses and interest cost.

Identifiable assets are those assets used by each segment in its operations. Corporate assets consist primarily of cash, marketable securities and marketable investment securities.

Substantially all of the company's sales are made to unaffiliated customers and no one customer accounted for 10% of consolidated sales. Foreign operations are not material in relation to the consolidated financial position or results of operations.

18. Inflation Accounting (Unaudited)

Rapidly changing prices have had an increased impact on the company in recent years. Inflation affects the company in many ways — particularly the costs of acquiring inventory and the costs of replacing property, plant and equipment. The company's ability to react to inflation depends on, among other things, its ability to compensate for increased costs with increased sales prices, the extent to which productivity can be increased and its method of financing the enterprise.

The Securities and Exchange Commission (SEC) and the Financial Accounting Standards Board (FASB) have established standards for reporting the effects of inflation. These standards require supplemental disclosures to conventional financial statements prepared in accordance with generally accepted accounting principles.

FASB Statement No. 33, "Financial Reporting and Changing Prices," requires the presentation of a statement of earnings that is derived by restating cost of goods sold, and depreciation and amortization to dollars, whose purchasing power is equivalent to the dollar for fiscal year ended February 28, 1982, as measured by the Consumer Price Index for All Urban Consumers (CPI-U) (the Constant Dollar method). The CPI-U is an index used to measure the average change in prices over time of consumer durable and non-durable goods and services.

Under the Constant Dollar method, cost of sales are adjusted to a common unit of measure. The adjustment to cost of sales reflects a charge for inflation for the period inventory was held prior to sale. Cost of sales is restated for changes in the levels of inventories priced under the FIFO method of inventory valuation.

The adjustment to depreciation reflects a charge for inflation from the period in which plant and equipment were purchased to the present. Depreciation was computed using the same depreciation methods and depreciable life assumptions utilized for the conventional financial statements.

The FASB Statement No. 33 encourages "experimentation within the guidelines of this statement and the development of new techniques that fit the particular circumstances of the enterprise." Management supports this experimentation and feels that more emphasis on financial data adjusted for the effects of inflation on a particular enterprise may provide financial statement users a more reliable basis for comparison among companies within the same industry.

The company recognizes that inflation has had a severe impact on the reported figures; however, the company also believes that the CPI-U can produce results as misleading as the historic figures presented in the financial statements. Accordingly, the disclosures of certain information in accordance with FASB Statement No. 33 was prepared using the CPI-U as it relates to the respective segments of the company. However, since the FASB could not assure the company that the SEC would accept these computations, a dual presentation is made also showing the effect of using the CPI-U for all industries, including those in which the company does not compete.

Current cost measures the effect of specific price changes on inventory and property, plant and equipment as a result of inflation. The current cost of inventories owned is the current cost of purchasing the goods concerned or the current cost of the resources required to produce the goods concerned. The current cost of inventories was determined utilizing the FIFO method of inventory valuation adjusted for unrecognized price increases through application of the Bureau of Labor Statistics Producer Price Index (BLS-PPI) for those inventory items applicable to the company.

Notes to Consolidated Financial Statements

(Dollars in thousands except per share data)
(Continued)

The current cost of property, plant and equipment was determined using the appropriate BLS-PPI, the Marshall Valuation Service Building Cost Index, and management's estimates and appraisals. The current cost of property measures costs of assets having the same or similar service potential as those owned by the company. Current cost does not measure owned assets against those technologically superior assets which may be available and which also may require capital outlays significantly greater than the current costs of assets presently owned by the company.

The purpose of current cost restatement is to provide management with a basis for estimating the impact of price changes on future net income and potential cash flow. However, current cost data does not reflect specific plans for replacement of property, and it does not purport to represent precise measurements of assets and expenses, but rather approximations of price changes experienced by the company.

The adjustment to cost of sales was determined on the same basis as calculated for constant dollars. The adjustment reflects the change in beginning and ending inventory levels as adjusted for increases in specific prices of inventory.

The adjustment to depreciation reflects the increased expense associated with the current cost valuation of property, plant and equipment. Depreciation was computed using the same depreciation methods and depreciable life assumptions utilized for the conventional financial statements.

Inflation also affects monetary assets, such as cash and receivables, and monetary liabilities, such as debt, payables, and deferred income taxes. Any company in a net monetary borrowing position can benefit during periods of inflation because dollars with lower purchasing power will be used to satisfy obligations in future years. Holding monetary assets in a period of inflation results in a purchasing power loss.

The five-year comparison shows the effect of adjusting required historical data for the effects of inflation on both a constant dollar and current cost basis. Constant dollar cost is presented showing the results of using the CPI-U as it relates to the specific segments of the company.

The provision for income taxes remains unchanged because income tax laws do not allow the company to claim tax deductions related to these adjustments. As a result, the adjustments made for inflation are not tax effected. Thus, the effective tax rates and net earnings on an inflation adjusted basis are distorted.

All comparisons between the conventional financial statements and the required supplemental disclosures must be viewed with caution because of the many assumptions inherent in these estimates.

The summary consolidated statement of earnings adjusted for inflation for the year ended February 28, 1982, is as follows:

	As Reported in Financial Statements (Historical Dollars)	Adjusted for General Inflation (Constant Dollars)		Adjusted for Specific Price Changes (Current Cost)
		Company Segments	All Industries	
Net sales and other income.....	\$2,702,570	\$2,702,570	\$2,702,570	\$2,702,570
Cost of sales (a).....	1,805,568	1,839,033	1,864,403	1,811,403
Selling, general and administrative expenses (a).....	597,131	597,131	597,131	597,131
Depreciation expense.....	39,400	48,693	59,006	69,356
Interest expense.....	37,201	37,201	37,201	37,201
Income taxes.....	104,655	104,655	104,655	104,655
	<u>2,583,955</u>	<u>2,626,713</u>	<u>2,662,396</u>	<u>2,619,746</u>
Net earnings.....	\$ 118,615	\$ 75,857	\$ 40,174	\$ 82,824
Earnings per share.....	\$ 7.23	\$ 4.62	\$ 2.45	\$ 5.05
Effective income tax rate.....	<u>46.9%</u>	<u>58.0%</u>	<u>72.3%</u>	<u>55.8%</u>
Gain in purchasing power of net monetary assets held.....			\$ 14,063	\$ 14,063
Effect of increases in general price level.....				\$ 130,324
Increases in specific prices (current cost) of inventory and property, plant and equipment (b).....				<u>127,391</u>
Excess of increase in general price level over increase in current cost.....				<u>\$ 2,933</u>

(a) Excludes depreciation and amortization expense.

(b) The current cost of inventory was \$735,934 at February 28, 1982 and \$680,108 at February 28, 1981. The current cost of property, plant and equipment, net of accumulated depreciation and amortization, was \$714,849 at February 28, 1982 and \$685,514 at February 28, 1981.

Notes to Consolidated Financial Statements

(Dollars in thousands except per share data)
(Continued)

The following five-year comparison shows selected historical financial data adjusted for the effects of changing prices:

	1982	1981	1980	1979	1978
Net sales and other income:					
Historic dollars	\$2,702,570	\$2,395,875	\$2,048,267	\$1,870,961	\$1,683,282
Constant dollars:					
Company segments ...	2,702,570	2,517,288	2,313,599	2,211,028	2,050,264
All industries	2,702,570	2,629,363	2,542,136	2,601,805	2,530,886
Net earnings:					
Historic dollars	118,615	121,203	106,706		
Constant dollars:					
Company segments ...	75,857	84,211			
All industries	40,174	44,696	38,517		
Current cost	82,824	62,251	76,744		
Earnings per share:					
Historic dollars	7.23	7.42	7.35		
Constant dollars:					
Company segments ...	4.62	5.15			
All industries	2.45	2.73	2.65		
Current cost	5.05	3.81	5.28		
Cash dividends declared per common share:					
Historic dollars	2.88	2.64	2.35	2.10	1.85
Constant dollars — all industries	2.88	2.90	2.92	2.92	2.78
Net assets at year end:					
Historic dollars	985,072	910,873	836,313		
Constant dollars —					
all industries	1,230,428	1,136,337	1,076,985		
Current cost	1,324,563	1,205,824	1,179,406		
Excess of increase in general price level over increase in current cost	2,933	20,507			
Gain (loss) in purchasing power of net monetary assets	14,063	11,063	(1,253)		
Market price at end of year:					
Historic dollars	40.75	49.38	38.00	37.25	39.25
Constant dollars — all industries	\$ 40.75	\$ 54.19	\$ 47.16	\$ 51.80	\$ 59.01
Average Consumer Price Index:					
Composite of					
company segments ...	186.6	177.6	165.2	157.9	153.2
All industries	275.9	251.4	222.3	198.4	183.5

**19. Quarterly Financial
Information
(Unaudited)**

The following quarterly information includes all adjustments necessary for a fair presentation. Prior to restatement for FASB Statement No. 43, fourth quarter 1981 gross profit, net earnings and earnings per share amounts were \$222,228, \$38,521 and \$2.36, respectively.

	First	Second	Third	Fourth
Sales:				
1982	\$639,432	\$713,664	\$716,995	\$603,678
1981	532,392	599,125	606,949	629,990
1980	463,789	532,143	519,217	509,158
Gross Profit:				
1982	\$203,370	\$222,964	\$228,930	\$198,136
1981	166,535	190,318	198,016	221,952
1980	140,352	157,691	162,763	183,733
Net Earnings:				
1982	\$25,375	\$32,308	\$31,216	\$29,716
1981	23,025	29,778	33,006	35,394
1980	19,761	25,344	28,251	33,350
Earnings Per Share:				
1982	\$1.55	\$1.97	\$1.90	\$1.81
1981	1.41	1.82	2.02	2.17
1980	1.37	1.76	1.98	2.24
Common Dividends Paid Per Share:				
1982	\$0.72	\$0.72	\$0.72	\$0.72
1981	0.66	0.66	0.66	0.66
1980	0.55	0.60	0.60	0.60

**Independent Accountants'
Report**

The Board of Directors and Stockholders
INTERCO INCORPORATED:

We have examined the consolidated balance sheets of INTERCO INCORPORATED and subsidiaries as of February 28, 1982 and 1981 and the related consolidated statements of earnings, stockholders' equity, and changes in financial position for each of the years in the three year period ended February 28, 1982. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned consolidated financial statements present fairly the financial position of INTERCO INCORPORATED and subsidiaries at February 28, 1982 and 1981 and the results of their operations and the changes in their financial position for each of the years in the three year period ended February 28, 1982, in conformity with generally accepted accounting principles applied on a consistent basis except for the change, with which we concur, in the method of accounting for compensated absences as described in Note 2 to the consolidated financial statements.

Peat, Marwick, Mitchell & Co.

St. Louis, Missouri
April 15, 1982

Management's Discussion And Analysis Of Results Of Operations And Financial Condition

Results of Operations

Fiscal 1982 represented the first full year of operations for Broyhill in the Furniture and Home Furnishings Group. For fiscal 1981, the Furniture Group includes operating results for a full year for Ethan Allen and for three months of Broyhill. For fiscal 1980, the Furniture Group includes the operating results of Ethan Allen for the month of February 1980. These acquisitions were accounted for as purchases; and accordingly, their operations have been included in the consolidated statements from their respective dates of acquisition. Also, fiscal 1981 has been restated for the retroactive adjustment of accounting for compensated absences in accordance with the Financial Accounting Standards Board Statement No. 43.

Sales—During the past three years, net sales have increased 12.9%, 17.0% and 9.3%, respectively. Each major operating group contributed to the increases with record sales. The primary reason for the 12.9% increase in fiscal 1982 and the 17.0% increase in fiscal 1981 was due to the inclusion of the Furniture and Home Furnishing Group.

Cost of Sales and Selling, General and Administrative Expenses

As a percent of sales, cost of sales and expenses for the past three years were 91.3%, 90.5% and 90.6%, respectively. The increase in fiscal 1982 was the result of added sales promotions which adversely affected gross profit margins.

Interest Expense—Interest expense increased to \$37.2 million in fiscal 1982 from \$20.3 million in fiscal 1981, which increased from \$9.3 million in fiscal 1980. The increases in fiscal 1982 and 1981 were attributable to the assumed debts of the purchased companies, an increased level of short-term borrowing, at higher rates, to finance operational needs and the issuance of new debt.

Net Earnings—Net earnings decreased by 2.1% in fiscal 1982 following increases of 13.6% and 15.3% in fiscal 1981 and 1980, respectively. Fiscal 1982 earnings were adversely affected by the depressed retail profit margins and increased interest expense. Earnings of the manufacturing segments of the company have continued to be strong over the three-year period while earnings of the general retail segment were affected by above normal markdowns and the higher cost of doing business.

Earnings Per Share—Earnings per share were \$7.23, a decrease of 2.6% from the restated \$7.42 in fiscal 1981, after increases of 1.0% and 15.4% in the two previous years, respectively.

The increase in fiscal 1981 was less than the increase in net earnings due to the inclusion in average shares outstanding of the common stock equivalents of the preferred stock issued for the acquired company. In fiscal 1980, average shares were reduced by treasury shares purchased and increased by the common stock equivalents of the preferred stock, which was in the average for one month, thus producing a slightly higher increase in per share earnings as compared to the net earnings increase.

Financial Condition

Working Capital and Debt—Working capital was \$785.3 million at the end of fiscal 1982 as compared to \$711.6 million at February 28, 1981. The current ratio was 4.0 to 1 at February 28, 1982, as compared to 3.6 to 1 the prior year.

Additions to long-term debt and capital lease obligations amounted to \$29.8 million in fiscal 1982 and \$142.5 million in fiscal 1981. Debt and obligations assumed in the purchase of Broyhill and Ethan Allen amounted to \$6.6 million and \$41.1 million in fiscal 1981 and 1980, respectively.

The principal increase in fiscal 1982 was the remaining \$19.7 million of the 14¼% promissory notes. The principal increases for fiscal 1981 in long-term debt were the 10% promissory notes for \$43.6 million issued in the purchase of Broyhill, and the \$80.3 million in commercial paper which was scheduled for redemption through the issuance of the \$100 million in 14¼% promissory notes.

To meet short-term working capital requirements, the company maintains a credit agreement enabling it to borrow up to \$100 million in domestic or Euro-Dollar loans through February 28, 1983. The company also maintains other bank lines of credit aggregating \$105 million, as credit availability and support for the sale of commercial paper.

Capital Expenditures—The company maintains formalized procedures for the review of capital expenditures to include its projected return on investment.

Capital expenditures, for company owned and capitalized leased property, aggregated \$243.4 million during the last five years, of which \$52.3 million occurred in fiscal 1982. It is anticipated that capital expenditures for fiscal 1983 will approximate \$54 million of which \$8 million represented firm commitments at February 28, 1982. Cash flow from operations will provide the principal source of funds to support these expenditures.

Inflation Accounting—In Note 18 of the Notes to Consolidated Financial Statements, the company reports on Inflation Accounting based on the Consumer Price Index for all Urban Consumers as required under Financial Accounting Standards Board Statement No. 33. In addition, the effect of inflation is also presented based on the Consumer Price Index as it relates to the respective segments of the company.

Five Year Consolidated Financial Review

(Dollars in thousands except per share data)

Years Ended	1982	1981	1980	1979	1978
For The Year					
Summary of operations:					
Net sales.....	\$2,673,769	\$2,368,456	\$2,024,307	\$1,851,458	\$1,666,657
Cost of sales	1,820,369	1,591,635	1,379,768	1,266,618	1,158,387
Interest expense	37,201	20,284	9,316	9,570	8,398
Earnings before income taxes.....	223,270	232,021	205,735	186,869	161,579
As a percent of sales	8.4%	9.8%	10.2%	10.1%	9.7%
Income taxes	104,655	110,818	99,029	94,293	79,745
Net earnings.....	118,615	121,203	106,706	92,576	81,834
As a percent of sales	4.4%	5.1%	5.3%	5.0%	4.9%
Earnings applicable to common stock	118,642	121,272	106,719	92,576	81,834
Per share of common stock:					
Earnings	\$7.23	\$7.42	\$7.35	\$6.37	\$5.70
Dividends	\$2.88	\$2.64	\$2.35	\$2.10	\$1.85
Average common and common equivalent shares outstanding (in thousands)					
	16,406	16,344	14,527	14,535	14,365
Cash dividends paid:					
On common stock	\$ 40,683	\$ 37,042	\$ 33,563	\$ 30,425	\$ 26,490
On preferred stock.....	\$ 7,809	\$ 7,511	\$ —	\$ —	\$ 1
At Year End					
Working capital.....	\$ 785,328	\$ 711,551	\$ 606,833	\$ 537,878	\$ 532,361
Property, plant and equipment, net	417,107	412,107	309,636	207,641	180,591
Capital expenditures:					
Company owned property.....	48,353	62,857	41,849	30,173	19,980
Capitalized leased property.....	3,940	5,860	4,759	16,427	9,227
Total assets.....	1,538,950	1,472,106	1,239,036	1,003,075	899,778
Long-term debt.....	198,054	187,208	60,225	41,236	42,825
Obligations under capital leases	76,820	79,925	80,718	68,146	58,325
Stockholders' equity	985,072	910,873	836,313	684,164	621,512
Book value per common share.....	\$ 62.36	\$ 57.76	\$ 52.21	\$ 47.56	\$ 43.34

The above figures included under 1981, where applicable, have been restated in accordance with the Financial Accounting Standards Board Statement No. 43.

Memorial Tribute to William L. Edwards, Jr.

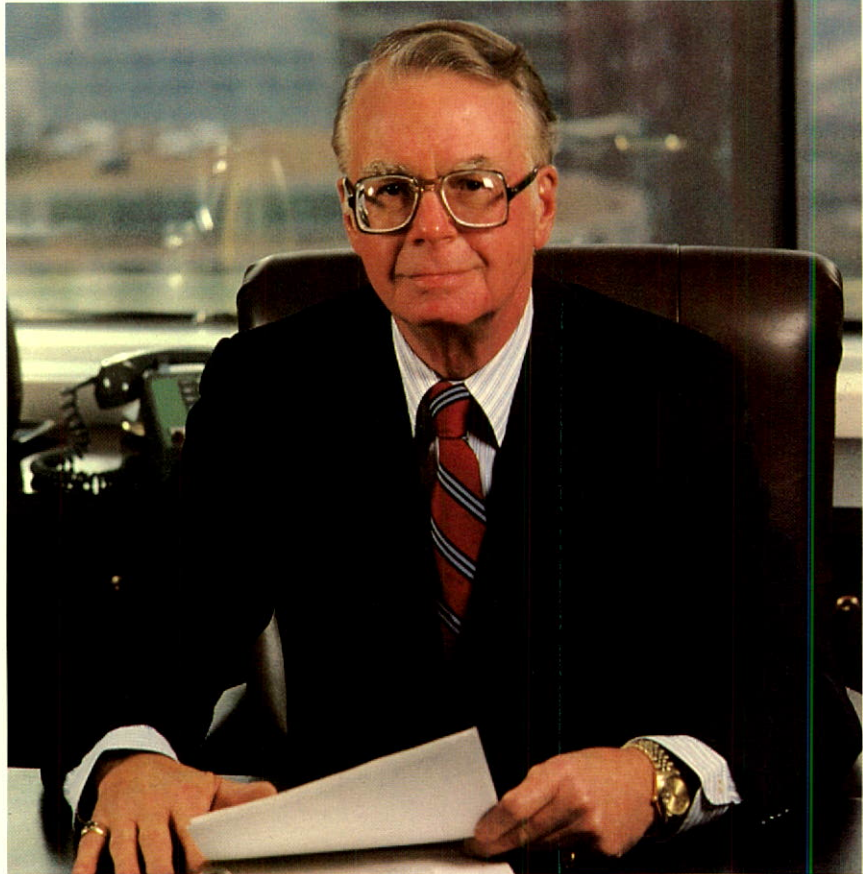
1918-1981

With deep sadness we note the death of an honored associate, William L. Edwards, Jr., on Sunday, June 21, 1981.

Mr. Edwards joined our company in 1969 as a Director and Vice-President, Finance, having had many year's experience as a corporate controller, treasurer and financial officer. Progressing rapidly through senior management responsibilities, he was elected Executive Vice-President in 1970, Senior Executive Vice-President in 1971, and Vice-Chairman and Chief Administrative Officer in 1975. In June 1976, Mr. Edwards became Chairman of the Board of Directors and Chief Executive Officer of the company, the positions he held at the time of his death.

In addition to his many contributions to the company, Mr. Edwards served as a director of other companies and of numerous civic, religious, educational and philanthropic organizations. In recognition of his leadership, he received many awards including the Financial World Magazine designation as "Outstanding Chief Executive Officer of the Year" in 1978, and the Sales and Marketing Executives of Metropolitan St. Louis "Distinguished Executive of the Year" in 1979.

Mr. Edwards was a man of loyalty, integrity, humility and honor. He was a tireless and determined executive, with vibrant energy and sensitivity that inspired and challenged his associates. We will always be grateful for his many contributions to our company.



Nathan S. Ancell

Chairman of the Board,
Ethan Allen Inc.

Ronald L. Aylward

Executive Vice President,
Administrative, of the Company

Zane E. Barnes

President and Chief Executive Officer,
Southwestern Bell Telephone
Company

Stanley M. Cohen

Chairman of the Board,
Central Hardware Company

Edwin S. Jones

Retired

Donald E. Lasater

Chairman of the Board and Chief
Executive Officer, Mercantile
Bancorporation, Inc. and Mercantile
Trust Company National Association

Jonathan P. Myers

Consultant

Thomas H. O'Leary

President, Missouri Pacific
Corporation

Norfleet H. Rand

Retired

John K. Riedy

Chairman of the Board and Chief
Executive Officer of the Company

Charles J. Rothschild, Jr.

President, Campus Sportswear
Company

Harvey Saligman

President and Chief Operating Officer
of the Company

Executive Committee

John K. Riedy, Chairman
Ronald L. Aylward
Norfleet H. Rand
Harvey Saligman

Audit Committee

Thomas H. O'Leary, Chairman
Zane E. Barnes
Edwin S. Jones
Donald E. Lasater

**Executive Compensation and
Stock Option Committee**

Donald E. Lasater, Chairman
Zane E. Barnes
Edwin S. Jones
Thomas H. O'Leary
Norfleet H. Rand

Nominating Committee

Zane E. Barnes, Chairman
Donald E. Lasater
Thomas H. O'Leary
John K. Riedy

John K. Riedy

Chairman of the Board and Chief
Executive Officer

Harvey Saligman

President and Chief Operating Officer

Ronald L. Aylward

Executive Vice President,
Administrative

Stanley M. Cohen

Vice President

Gerald B. Hirsch

Vice President

J. Carl Powers

Vice President

Charles J. Rothschild, Jr.

Vice President

Nathan S. Ancell

Vice President

Harry M. Krogh

Vice President

Paul H. Broyhill

Vice President

Duane A. Patterson

Secretary

Robert T. Hensley, Jr.

Treasurer

Stanley F. Huck

Controller

Keith E. Mattern

General Counsel and
Assistant Secretary

James K. Pendleton

Assistant Secretary

William R. Withrow

Assistant Treasurer

Russell L. Baumann

Assistant Controller

Wilfred G. Morice

Assistant Controller

Operating Board

John K. Riedy

Chairman of the Board and Chief Executive Officer of the Company

Harvey Saligman

President and Chief Operating Officer of the Company

Ronald L. Aylward

Executive Vice President, Administrative, of the Company

Nathan S. Ancell

Chairman of the Board, Ethan Allen Inc.

Edwin J. Baum

President, The Biltwell Company, Inc.

Lionel Baxter

President, Big Yank Corporation

Paul H. Broyhill

Chairman of the Board, Broyhill Furniture Industries, Inc.

Stanley M. Cohen

Chairman of the Board, Central Hardware Company

Webster L. Cowden, Jr.

President, Cowden Manufacturing Company

Herschel Cravitz

President, Queen Casuals, Inc.

Theodore A. Fell

President, Sidney Gould Co., Ltd.

Barry S. Fine

President, Fine's Men's Shops, Incorporated and Standard Sportswear

Jean S. Goodson

President, International Hat Company

Gerald B. Hirsch

President, P. N. Hirsch & Company

William B. Klinsky

President, Alberts, Inc.

Harry M. Krogh

President, The Florsheim Shoe Company

Mark H. Lieberman

President, Londontown Corporation

Stanley Matzkin

President, Devon Apparel

Robert B. Peterson

Chairman of the Board, Sky City Stores, Inc.

J. Carl Powers

President, International Shoe Company

Charles J. Rothschild, Jr.

President, Campus Sportswear Company

Arthur Sibley

President, College-Town

Irving S. Wahl

Chairman of the Board, Stuffed Shirt/Stuffed Jeans, Inc.

John Weil

President, Eagle Family Discount Stores, Inc.

Apparel Manufacturing Group**Big Yank Corporation**

New York, New York

The Biltwell Company, Inc.

St. Louis, Missouri

Campus Sportswear Company

Paramus, New Jersey

College-Town

Braintree, Massachusetts

Cowden Manufacturing Company

Lexington, Kentucky

Devon Apparel

Philadelphia, Pennsylvania

International Hat Company

St. Louis, Missouri

Londontown Corporation

Eldersburg, Maryland

Queen Casuals, Inc.

Philadelphia, Pennsylvania

Sidney Gould Co., Ltd.

Hauppauge, New York

Stuffed Shirt/Stuffed Jeans, Inc.

New York, New York

General Retail Merchandising Group**Alberts, Inc.**

Detroit, Michigan

Central Hardware Company

St. Louis, Missouri

Eagle Family Discount Stores, Inc.

Miami, Florida

Fine's Men's Shops, Incorporated

Norfolk, Virginia

Golde's Department Stores, Inc.

St. Louis, Missouri

P. N. Hirsch & Company

St. Louis, Missouri

Sky City Stores, Inc.

Asheville, North Carolina

Standard Sportswear

Pittsburgh, Pennsylvania

United Shirt Distributors, Inc.

Detroit, Michigan

Footwear Manufacturing and Retailing Group**The Florsheim Shoe Company**

Chicago, Illinois

International Shoe Company

St. Louis, Missouri

Senack Shoes, Inc.

St. Louis, Missouri

Furniture and Home Furnishings Group**Broyhill Furniture Industries, Inc.**

Lenoir, North Carolina

Ethan Allen Inc.

Danbury, Connecticut

Transfer Agents

(Common and Preferred Stock)

Mercantile Trust Company National Association

St. Louis, Missouri 63166

(314) 425-2755

Morgan Guaranty Trust Company

New York, New York 10249

(212) 587-6434

Registrars

(Common and Preferred Stock)

Center Trust Company

St. Louis, Missouri 63178

(314) 231-9300

Morgan Guaranty Trust Company

New York, New York 10249

(212) 587-6434

Dividend Disbursing Agent

(Common and Preferred Stock)

Mercantile Trust Company National Association

St. Louis, Missouri 63166

(314) 425-2755

Independent Accountants

Peat, Marwick, Mitchell & Co.

St. Louis, Missouri 63101

Exchange Listing

Common and Preferred Shares and 14¼% Notes are listed on the New York Stock Exchange. Common shares are also listed on the Midwest Stock Exchange.

(Trading symbol: ISS)

Corporate Offices

Ten Broadway

St. Louis, Missouri 63102

(314) 231-1100

Mailing Address:

Post Office Box 8777

St. Louis, Missouri 63102

Annual Meeting

The Annual Meeting of Stockholders will be held at 10 a.m., Monday, June 28, 1982, at the Marriott Pavilion Hotel, One Broadway, St. Louis, Missouri. Notice of the meeting and a proxy statement will be sent to stockholders in a separate mailing.

INTERCO INCORPORATED

St. Louis, Missouri